

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking on the
Commission's Proposed Policies and Programs
Governing Energy Efficiency, Low-Income
Assistance, Renewable Energy and Research
Development and Demonstration.

Rulemaking 98-07-037
(Filed July 23, 1998)

**ADMINISTRATIVE LAW JUDGE'S RULING
REQUESTING COMMENTS ON AB 970 SELF GENERATION
INCENTIVE PROGRAM EVALUATION REPORTS AND RELATED ISSUES**

Summary

This ruling seeks comments on four reports that evaluate components of the Assembly Bill (AB) 970 Self Generation Incentive Program (SGIP).¹ The reports were submitted by the Regional Economic Research Consulting Group/Itron (RER) on behalf of the program administrators. Collectively, these reports will be used by the Commission and parties to identify potential improvements in program design and incentive mechanisms.

Comments are due by January 30, 2004, and reply comments are due by February 13, 2004. As discussed in this ruling, interested parties are invited to respond to the questions in Attachment A, provide comments regarding issues

¹ The SGIP Evaluation Reports are available on the Commission's Website:
<http://www.cpuc.ca.gov/static/industry/electric/distributed+generation/index.htm>

raised in the reports, or suggest program improvements not covered by Attachment A or the reports.

Background

In Decision (D.) 01-03-073, the Commission stated that the SGIP would be evaluated at various intervals both during and after the program period. Pacific Gas and Electric Company, Southern California Edison Company, Southern California Gas Company, and San Diego Regional Energy Office, known collectively as the program administrators, were required to perform program evaluations and load impacts studies to verify energy production and system peak demand reductions, and conduct an independent analysis of the relative effectiveness of utility and non-utility program administration. These activities were outsourced to independent consultants.

RER was selected to perform the evaluation studies and submit a total of six reports between June 2002 and January 2005. To date, RER has submitted four evaluation reports:

- First Year Incentives Process
- Second Year Operation Impacts
- Second Year Incentives Process
- Utility/Non-Utility Administration

Subsequent third and fourth year impact evaluation reports are scheduled for submission in April 2004 and April 2005, respectively.

The Energy Division has prepared a list of questions (Attachment A) that correlate to key findings and recommendations discussed in the evaluation reports, or correspond to specific situations encountered during the course of the program. Parties are invited to respond to the questions in Attachment A,

provide comments regarding issues raised in the reports, or suggest program improvements not covered by Attachment A or the reports.

Other Legislative Issues

AB 1685, now California Public Utilities Code Section 379.6, was signed into law on October 12, 2003. This legislation effectively extends the SGIP until January 1, 2008, adds certain emissions and efficiency eligibility requirements, and provides the Commission with flexibility in program administration.

In their comments, interested parties should comment on how the Commission could implement and enforce the emissions and efficiency standards and the credit mechanism for combined heat and power units, as required by AB 1685.

Other questions related to this statute are presented for comment in Attachment A.

IT IS RULED that:

1. Comments on the reports and evaluation issues discussed in this ruling are due by January 30, 2004, and reply comments are due by February 13, 2004.
2. All comments required by this ruling shall be filed at the Commission's Docket Office in this proceeding, or its successor proceeding, and served electronically to all appearances and the state service list. Service by U.S. mail is optional, except that one hard copy shall be mailed to the assigned Administrative Law Judge. In addition, if there is no electronic mail address available, the electronic mail is returned to the sender, or the recipient informs the sender an inability to open the document, the sender shall immediately arrange for alternate service (regular U.S. mail shall be the default, unless another means is mutually agreed upon). Parties that prefer a hard copy or electronic file

in original format in order to prepare analysis and filings in this proceeding may request service in that form as well. The current service list for this proceeding is available on the Commission's web page, www.cpuc.ca.gov.

Dated December 10, 2003, at San Francisco, California.

/s/ MEG GOTTSTEIN
Meg Gottstein
Administrative Law Judge

Attachment A
ENERGY DIVISION
SGIP EVALUATION QUESTIONS

In general, the Energy Division welcomes any comments with respect to the Evaluation Reports prepared by the Regional Energy Research Consulting Group. These reports may be found on the Commission's website at:
www.cpuc.ca.gov/static/industry/electric/distributed+generation/index.htm

In addition, the Energy Division seeks responses to the following questions.

Program Design

1. The Second Year report states that the percentage cost limitation drives up system costs, and creates undue administrative burdens for applicants and Program Administrators (pp. 8-15). Should the percentage limit be eliminated in favor of a fixed dollar per watt incentive structure? If so, how should the Commission determine an appropriate fixed dollar per watt level? If not, should the existing percentage and dollar per watt limits be adjusted?
2. Please provide comments on the effectiveness of the Level 1, 2, and 3 incentive structure. Do incentive levels need to be adjusted by technology type? For example, the Second Year report recommends the Commission develop separate incentive levels for microturbines and internal combustion engines, due to dissimilar markets, costs, and environmental impacts (pp. 8-14).
3. Are system and site size limitations still reasonable? Should the "parent" company or government agency caps be modified?
4. Do the current program guidelines allow for flexible ownership or lease arrangements when determining eligibility for incentive payments? How should program administrators assess the relative "permanence" of onsite generation installed under a lease arrangement?
5. Do changes need to be made to SGIP program participation requirements to compliment those of other state programs, such as those offered through the California Energy Commission and the California Power Authority?

6. Should changes be made to bring the SGIP in line with other CPUC rules or utility tariffs, such as rate, tax or other financial incentives? If so, identify which incentives and the types of changes that could be made to the SGIP. For example, the insurance requirements to participate in the SGIP are similar, but not identical to, proof of coverage requirements required by the utilities to interconnect to the distribution system.
7. Is there an appropriate alignment of goals between Commission distributed generation programs such as the SGIP and the Renewable Portfolio Standard (RPS)? Should systems that contribute to utility RPS goals be eligible to receive incentives? Should eligibility requirements be interchangeable to enhance participation in both programs?
8. The Process Evaluation Report cites interconnection and metering requirements as barriers to program participation. Are there other barriers not mentioned in the evaluation reports? What changes could be made to reduce unnecessary obstacles to participation?

Program Implementation

9. How could the program handbook be improved to reduce complexity, yet provide adequate information and disclosure?
10. Hospitals, schools, municipalities, and new construction projects have difficulty meeting the one-year the one-year proof of progress deadline, which commences after the project receives notice of conditional reservation. Currently, program administrators extend the deadline on a case-by-case basis. Is per-project approval sufficient, or should the completion deadline be increased from one year to two years for new construction projects, and to 18 months for institutional customers?
11. Do the Evaluation Reports adequately articulate and measure the goals of the SGIP as articulated in D.01-03-073?
12. With respect to non-utility administration, the Administrator Comparative Assessment observes that “utility oversight and rate recovery create an inherent disadvantage because it necessitates an additional layer of administration...” (p. ES-3). What program changes could be made to reduce utility involvement and costs in a non-utility administrated program?

13. Should the Commission develop an exit plan for the SGIP, as recommended in the Year 2 Impacts Report? Please describe a transitional strategy, and how the exit plan could be communicated to the market.

Assembly Bill 1685

14. Assembly Bill 1685 extends the SGIP through December 2007, and requires fossil-fueled technologies to meet specific efficiency and emissions eligibility requirements by January 2005 and January 2007, respectively.
 - How should the Commission establish and administer the new criteria for emissions and efficiency standards, as well as the credit mechanism required by AB 1685?
 - What type of procedures should the Commission use to ensure and enforce compliance with the new standards? Describe the type of reporting requirements necessary to monitor compliance.
 - AB 1685, specifically § 379.6(a), directs the Commission to “administer a self-generation incentive program for distributed generation resources, in the same form as exists on January 1, 2004.” We solicit comments from parties on whether this section permits the Commission to modify the technology sizes or annual funding levels currently set to expire on December 31, 2004.
 - Are there any other program changes that should be made as a result of the legislated program extension? Are these changes consistent with the provisions of Public Utilities Code § 379.6(a) and 379.6(b)[4]?
 - Currently, the SGIP budget is capped at \$500 million through December 2004. The utilities track program costs in a memorandum account for cost recovery through distribution revenues within their respective Revenue Annual Proceeding or comparable rate proceeding. Parties should comment on future cost recovery mechanisms within the parameters of AB 1685, specifically §379.5, which states:

“The commission . . . shall include the reasonable costs involved in taking those actions in the distribution revenue requirements of utilities regulated by the commission, as appropriate . . . ”

(END OF ATTACHMENT A)

CERTIFICATE OF SERVICE

I certify that I have by mail, and by electronic mail to the parties to which an electronic mail address has been provided, this day served a true copy of the original attached Administrative Law Judge's Ruling Requesting Comments on AB 970 Self Generation Incentive Program Evaluation Reports and Related Issues on all parties of record in this proceeding or their attorneys of record.

Dated December 10, 2003, at San Francisco, California.

/s/ KE HUANG

Ke Huang

N O T I C E

Parties should notify the Process Office, Public Utilities Commission, 505 Van Ness Avenue, Room 2000, San Francisco, CA 94102, of any change of address to ensure that they continue to receive documents. You must indicate the proceeding number on the service list on which your name appears.

The Commission's policy is to schedule hearings (meetings, workshops, etc.) in locations that are accessible to people with disabilities. To verify that a particular location is accessible, call: Calendar Clerk (415) 703-1203.

If specialized accommodations for the disabled are needed, e.g., sign language interpreters, those making the arrangements must call the Public Advisor at (415) 703-2074, TTY 1-866-836-7825 or (415) 703-5282 at least three working days in advance of the event.